

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Sparta Fire Department
Kent County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended March 31, 2006

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INDEPENDENT AUDITORS' REPORT

**Members of the Board
Sparta Fire Department**

We have audited the accompanying financial statements of the governmental activities and the major fund of Sparta Fire Department as of and for the year ended March 31, 2006, which collectively comprise the Department's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Sparta Fire Department as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Sparta Fire Department has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Siegfried Crandall P.C.

June 23, 2006

BASIC FINANCIAL STATEMENTS

Sparta Fire Department
STATEMENT OF NET ASSETS
March 31, 2006

**Governmental
activities**

ASSETS

Current assets:

Cash	\$ 150,065
Receivables	3,471
Prepaid expenses	<u>6,200</u>

Total current assets 159,736

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>877,680</u>
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Total assets 1,037,416

LIABILITIES

Current liabilities:

Payables	10,232
Notes payable	<u>8,525</u>

Total current liabilities 18,757

Noncurrent liabilities - notes payable 19,586

Total liabilities 38,343

NET ASSETS

Invested in capital assets, net of related debt	849,569
Restricted for capital acquisitions	61,536
Unrestricted	<u>87,968</u>

Total net assets \$ 999,073

See notes to financial statements

Sparta Fire Department
STATEMENT OF ACTIVITIES
Year ended March 31, 2006

		<u>Program revenues</u>		<u>Net (expenses)</u>
		<u>Operating</u>	<u>Capital</u>	<u>revenues and</u>
	<u>Expenses</u>	<u>grants and</u>	<u>grants and</u>	<u>changes in</u>
		<u>contributions</u>	<u>contributions</u>	<u>net assets</u>
Functions/Programs				Governmental
Governmental activities:				activities
Public safety	\$ 396,773	\$ 372,036	\$ 193,119	\$ 168,382
Interest on long-term debt	<u>7,488</u>	<u>-</u>	<u>-</u>	<u>(7,488)</u>
Total governmental activities	<u>\$ 404,261</u>	<u>\$ 372,036</u>	<u>\$ 193,119</u>	<u>160,894</u>
General revenues:				
Interest income				4,805
Other				<u>7,848</u>
Total general revenues				<u>12,653</u>
Change in net assets				173,547
Net assets - beginning				<u>825,526</u>
Net assets - ending				<u>\$ 999,073</u>

See notes to financial statements

Sparta Fire Department**BALANCE SHEET**

March 31, 2006

ASSETS

Cash	\$ 150,065
Receivables	<u>3,471</u>
Total assets	<u>\$ 153,536</u>

LIABILITIES AND FUND BALANCE

Liabilities - payables	<u>\$ 10,232</u>
Fund balance:	
Reserved	61,536
Unreserved:	
Designated	77,938
Undesignated	<u>3,830</u>
Total fund balance	<u>143,304</u>
Total liabilities and fund balance	<u>\$ 153,536</u>

Total fund balance	\$ 143,304
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the fund. 877,680

Prepaid expenses are not a current financial resource and, therefore, are not reported in the funds. 6,200

Noncurrent liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the fund. (28,111)

Net assets of *governmental activities* (page 4) \$ 999,073

See notes to financial statements

Sparta Fire Department**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**

Year ended March 31, 2006

REVENUES

Contributions from participating units	\$ 323,296
Federal grants	241,859
Interest	4,805
Other	<u>7,848</u>
Total revenues	<u>577,808</u>

EXPENDITURES

Public safety	255,900
Capital outlay	270,983
Debt service:	
Principal	80,727
Interest	<u>7,488</u>
Total expenditures	<u>615,098</u>

NET CHANGE IN FUND BALANCE (37,290)**FUND BALANCE - BEGINNING** 180,594**FUND BALANCE - ENDING** \$ 143,304

Net change in fund balance \$ (37,290)

Amounts reported in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

6,200

Capital assets:

Assets acquired	200,605
Provision for depreciation	(76,695)

Long-term debt - principal repayments 80,727Change in net assets (page 5) \$ 173,547

See notes to financial statements

Sparta Fire Department
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Sparta Fire Department (the Department), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The Department is a joint venture of the Village of Sparta and the Township of Sparta. Costs of operations and capital expenditures are supported by contributions from the Village, which contributes one-third and the Township, which contributes two-thirds of the Department's proposed budget. In addition, a township-wide mileage is made available to the Department.

The accompanying financial statements present only the Department. There are no component units or entities for which the Department is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Department.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as general revenues.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Interest and other revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Department.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). The Department has elected not to follow subsequent private-sector standards.

Sparta Fire Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Measurement focus, basis of accounting, and financial statement presentation: (continued)

Amounts reported as program revenues include: (1) charges to customers for services provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - No allowance for uncollectible accounts has been recorded as the Department considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) Capital assets - Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Equipment and vehicles	5 - 20 years

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - The annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget document presents information by function and line-item. The legal level of budgetary control adopted by the Board is the function level.

Excess of expenditures over appropriations - During the year ended March 31, 2006, the Department incurred expenditures that were significantly in excess of the amount appropriated.

<u>Function</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety	\$ 235,150	\$ 255,900	\$ 20,750
Capital outlay	34,000	270,983	236,983
Debt service - principal	48,000	80,727	32,727

Sparta Fire Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH:

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Department's investment policy authorize the Department to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Department's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Department not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2006, \$105,212 of the Township's bank balances of \$205,212 was exposed to custodial credit risk because it was uninsured.

The Department believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Department evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

Receivables, as of year end, consist of contributions due from a local governmental unit. The receivables are due within one year and are considered fully collectible.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2006, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets being depreciated:				
Buildings and improvements	\$ 224,588	\$ 2,975	\$ -	\$ 227,563
Equipment	265,858	197,630	-	463,488
Vehicles	942,000	-	-	942,000
Subtotal	<u>1,432,446</u>	<u>200,605</u>	<u>-</u>	<u>1,633,051</u>
Less accumulated depreciation for:				
Buildings and improvements	87,096	4,523	-	91,619
Equipment	149,080	26,172	-	175,252
Vehicles	442,500	46,000	-	488,500
Subtotal	<u>678,676</u>	<u>76,695</u>	<u>-</u>	<u>755,371</u>
Total capital assets being depreciated, net	<u>\$ 753,770</u>	<u>\$ 123,910</u>	<u>\$ -</u>	<u>\$ 877,680</u>

Depreciation expense, in the amount of \$76,695, was charged to the public safety function of the Department.

Sparta Fire Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NOTES PAYABLE:

At March 31, 2006, noncurrent liabilities are comprised of the following issue:

Installment purchase agreement notes payable:

\$42,954 2004 bank note due in monthly installments of \$787, including interest at 3.79%; final payment due May 2009 \$ 28,111

Noncurrent liability activity for the year ended March 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2000 bank note	\$ 72,513	\$ -	\$ (72,513)	\$ -	\$ -
2004 bank note	<u>36,325</u>	<u>-</u>	<u>(8,214)</u>	<u>28,111</u>	<u>8,525</u>
Total noncurrent liabilities	<u>\$ 108,838</u>	<u>\$ -</u>	<u>\$ (80,727)</u>	<u>\$ 28,111</u>	<u>\$ 8,525</u>

At March 31, 2006, debt service requirements were as follows:

<u>Year ended March 31:</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 8,525	\$ 919
2008	8,853	591
2009	9,195	249
2010	<u>1,538</u>	<u>35</u>
Totals	<u>\$ 28,111</u>	<u>\$ 1,794</u>

NOTE 7 - RISK MANAGEMENT:

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Department has purchased commercial insurance for each of these claims up to \$5,000,000 and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

Sparta Fire Department
BUDGETARY COMPARISON SCHEDULE

Year ended March 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Local unit contributions:				
Township of Sparta	\$ 174,900	\$ 180,000	\$ 180,000	\$ -
Village of Sparta	87,450	87,450	90,000	2,550
Township-wide millage	48,000	48,000	53,296	5,296
Federal grant	-	-	241,859	241,859
Interest	1,800	1,800	4,805	3,005
Other	200	200	7,848	7,648
	<u>312,350</u>	<u>317,450</u>	<u>577,808</u>	<u>260,358</u>
Total revenues				
EXPENDITURES				
Public safety:				
Salaries and wages	117,400	117,400	137,322	(19,922)
Payroll taxes	8,800	8,800	10,519	(1,719)
Employee insurance	5,800	5,800	6,021	(221)
Office supplies	1,500	1,500	1,174	326
Operating supplies	24,000	24,000	12,615	11,385
Repairs and maintenance	15,000	15,000	17,222	(2,222)
Contracted services	7,500	14,300	19,418	(5,118)
Insurance	15,500	15,500	14,505	995
Education and training	12,000	12,000	7,241	4,759
Fuel	2,300	2,300	5,164	(2,864)
Dues	2,000	2,000	1,593	407
Telephone	2,500	2,500	3,824	(1,324)
Buildings and grounds	3,000	3,000	4,609	(1,609)
Utilities	8,800	8,800	13,949	(5,149)
Miscellaneous	2,250	2,250	724	1,526
	<u>228,350</u>	<u>235,150</u>	<u>255,900</u>	<u>(20,750)</u>
Total public safety				
Capital outlay	<u>34,000</u>	<u>34,000</u>	<u>270,983</u>	<u>(236,983)</u>
Debt service:				
Principal	40,000	40,000	80,727	(40,727)
Interest	8,000	8,000	7,488	512
	<u>48,000</u>	<u>48,000</u>	<u>88,215</u>	<u>(40,215)</u>
Total debt service				
Total expenditures	<u>310,350</u>	<u>317,150</u>	<u>615,098</u>	<u>(297,948)</u>

Sparta Fire Department**BUDGETARY COMPARISON SCHEDULE (Continued)***Year ended March 31, 2006*

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
NET CHANGES IN FUND BALANCES	\$ 2,000	\$ 300	\$ (37,290)	\$ (37,590)
FUND BALANCES - BEGINNING	<u>180,594</u>	<u>180,594</u>	<u>180,594</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 182,594</u>	<u>\$ 180,894</u>	<u>\$ 143,304</u>	<u>\$ (37,590)</u>